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C O N F I D E N T I A L SECTION 01 OF 04 CHISINAU 000577

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SUBJECT: MINISTER OF FINANCE ON BUDGET AND ECONOMY

Classified By: Ambassador Asif J. Chaudhry for
reasons 1.4 (b) and (d)

¶1. (C) Summary: During Ambassador Chaudhry's July 8 meeting with Minister of Finance Mariana Durlesteanu, the Minister explained that Moldova's finances were in serious trouble. Durlesteanu discussed a planned USD 500 million loan from Russia and the impact it would have on Moldova's relationship with the IMF and other international financial institutions. She talked about her role in the government as a technocrat and the difficulties of working for the good of the country in a politically charged atmosphere. The Minister opined that the Government of Moldova had done the right thing in allowing a state-controlled bank to purchase a failed bank. End Summary.

STATE FINANCES ARE WORSE THAN EXPECTED

¶2. (C) Minister Durlesteanu explained that the state's finances were worse than she had expected for July. The GOM had expected an increase in exports in June and July which would have increased government revenues. (Note: The GOM receives approximately 70 percent of its revenues from duties and taxes on imports which are driven by remittances. End Note) The GOM did not have sufficient funds to pay pensions and salaries on time and had had to delay payments a week or two each month. The Minister expressed frustration that people did not understand the seriousness of the state's financial situation in the economic crisis. They did not want to accept the fact that delaying the payment of pensions and salaries was necessary to keep the country solvent. She stated that she was managing cash flow daily and the GOM would be able to manage the situation at least until parliamentary elections on July 29. As a result of the budget crisis, the GOM would not be able to fulfill its investment plans for the year.

BRIDGING THE BUDGET GAP

¶3. (C) Durlesteanu noted that she would have to fill the budget gap with T-bills and loans. The only source of funds available to the GOM at present was in Moscow. If the GOM had succeeded in negotiating a new IMF agreement, when an IMF mission had visited Moldova in late May and early June, Moldova would not have had to seek a loan from Russia. She expected a new IMF mission in September following elections and the formation of a new government. If the GOM and IMF negotiated a new agreement in September, funds would not be available until the end of the year. The GOM

needed to find funds to bridge the gap until IMF support would begin to arrive. She said that the GOM had initiated discussions about a loan with Russia in February.

USD 500 MILLION RUSSIAN LOAN

14. (C) The Minister said that the USD 500 million loan announced by Russian President Putin during Acting President Voronin's visit to Moscow on June 22 did not include any political concessions. According to Durlesteanu, the Russians had said they did not intend to interfere in Moldova's relations with the EU, other countries or International Financial Institutions (IFIs). She added that the Russian Duma had amended the Russian budget in order to enable an initial tranche of USD 150 million to be allocated this year.

LOAN TERMS

15. (C) The Minister stated that the Russians had suggested a ten-year loan initially. Durlesteanu said she had insisted on 15 years for the loan. (Note: Armenia recently negotiated a 15-year loan agreement with Moscow for USD 500 million. End Note.) Moldova and Russia were still in discussions on the interest rate and grace period.

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Russia had wanted to offer a grace period of two years while Moldova had requested five years. Durlesteanu said she could consider a grace period of four or three years, if Russia decreased the margin. She noted that the Russians had requested that the GOM invest the funds in infrastructure projects. The Minister stated that negotiations on a second and third tranche for the remaining USD 350 million of the loan would be held later, should Moldova need the funds. She expressed serious doubt that the Moldovans would ever see any funds beyond the initial tranche of USD 150 million. She stated that the loan was important in calming the financial environment following the recent failure of one of the 16 banks in Moldova, Investprivatbank. The GOM would conduct discussions with the IMF in September and then consider how to proceed with the Russian loan for the two additional tranches.

IMF IS THE WISEST CHOICE AND KEY TO IFIS

16. (C) Durlesteanu agreed with the Ambassador that restoring a good relationship with the IMF would be the most prudent course of action for the GOM. It was important to have an IMF agreement because all other IFIs required an IMF program as a prerequisite for their assistance. In addition, the Minister noted that an IMF agreement was the green light for foreign direct investment. Durlesteanu explained that she had discussed the possibility of a Russian loan with the IMF in February or March and had addressed the issue in her meetings with the IMF mission during its visit in late May/early June. She said the IMF had advised her to pursue the loan since it was the only assistance available to Moldova in the current economic crisis.

GOM COMMENTS NOT HELPFUL

17. (C) In reference to a comment by Acting President Vladimir Voronin that the IMF was behaving like a woman leaving her husband only to return again, the Ambassador noted that such comments were not helpful. The Minister agreed wholeheartedly with the Ambassador and said she did not understand why Voronin sometimes made such counterproductive remarks. At this point, she emphasized that she was not a member of any political party and was not working for any party. She was working for the welfare of the country. Durlesteanu noted that she had participated in training at the IMF and had considered the possibility of working for the IMF five or ten years ago. She said she had tried to work with Voronin's advisors, in particular, Oleg Reidman, who advised the President on economic issues.

WORKING WITH VORONIN AND HIS ADVISORS

18. (C) The Ambassador stated that in a meeting with Prime Minister Greceanii two weeks ago, he had advised her that the President's advisors were not serving him well. The advisors were not telling the President the truth about what was happening in the country. Durlesteanu said that she was certain that the Prime Minister would deliver the message to the President. She said that when the budget was reviewed in December she had proposed setting aside some of the funds collected in privatizations during 2008 for worse times in the future, but the GOM had decided to spend the money in advance of the April 5 elections. Durlesteanu said she had wanted to leave the GOM and had gone to the hospital with high blood pressure in December. She noted that one had to catch Voronin at the right time to present ideas. She noted that the President's advisors had approached her in the past and had tried to influence her policies but she had refused to allow them to interfere in her work. She was convinced that she had the President's support for her handling of the Ministry. Presidential advisors no longer attempted to interfere in her work she said.

THE RUSSIAN LOAN AND TRANSNISTRIA

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19. (C) Durlesteanu said she had asked herself what the quid pro quo would be for the Russian loan when she began negotiations with Moscow. She thought it possible there would perhaps be demands linked to Transnistria. Durlesteanu noted that while she had been Moldova's Ambassador to Great Britain 2005-08, she had asked European colleagues why the EU did not do more to resolve the Transnistrian conflict in Moldova. She expressed frustration that the Europeans had replied that progress had been made in as far as nobody was shooting. She said that a settlement of the frozen conflict was important to Moldova. She pointed out that some institutions such as EBRD had found ways to work on both banks of the Dniester River and she wished other organizations would do the same. The Ambassador stressed that the "five plus two" format was the avenue for seeking resolution to the conflict. The Minister said that all GOM diplomats underline the same approach. Durlesteanu said that Transnistria had a far greater liquidity problem than right bank Moldova and was going further into debt to Gazprom

because the Transnistrian authorities only charged symbolic tariffs for gas and electricity.

BUDGET REFORMS

¶10. (C) The Minister said that she hoped to introduce some reforms after the elections. She complained that the GOM provided apartments to law enforcement officers but it was law enforcement that was regularly violating human rights and costing the GOM millions of Lei in cases lost in the European Court of Human Rights. In her opinion, the state was providing too much support to educational institutions and expenses needed to be cut in this sector. She said she had held meetings with regional leaders explaining that they would have to assume more responsibility for their own budgets in the future.

THE ECONOMY

¶11. (C) Remittances were down 30 percent at the end of May but this was a significant improvement over March and April. Daily remittances had been USD 1 million in March but were now USD 3 million daily. The Minister noted that the Russians considered Moldovan migrants hard workers with higher qualifications than migrant workers from Central Asia and the Caucasus. These factors enabled Moldovan migrants in Russia to remain employed and find new work when they lost jobs. Many Moldovans had withdrawn their money from banks in March and April because of the political instability in the country, but the funds had not been transferred abroad. People were keeping their money under their mattresses. Regarding the recent failure of Investprivatbank and its purchase by the government controlled Banca de'Economie, the Minister said this measure had been the safest and quickest means of guaranteeing deposits and reassuring Moldovans that the banking system was safe. Banca de'Economie had taken a loan from the National Bank of Moldovan to make the purchase. The Minister lamented that Investprivatbank clients were now complaining that they were no longer earning 28 percent on their deposits as they had previously.

COMMENT

¶12. (C) The Minister was very forthcoming in her discussions of the budget situation and the loan from Russia. The fact that she is not a member of a political party and does not engage in campaigning lends credence to her claim of placing her commitment to the well being of her country above all else. Prime Minister Greceanii has promoted Durlesteanu for several years and the similarities are striking. Both are women who rose through the Ministry of Finance because of their competencies. Neither is a member of the ruling Communist party or any other political party. The IMF Resident once noted that Greceanii

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can glance at a four yard print out of the national budget and explain every line item. The Resident highly respects Durlesteanu's professionalism. Durlesteanu has not pursued opportunities to work at IFIs to stay in Moldova and support the country's development.

CHAUDHRY